

AR30



BP Canada Limited 

Annual Report 1971

# Table of Contents

## Page

- 1 Highlights of the Year
- 2 Directors and Officers
- 3 Report to the Shareholders
- 4 Corporate Reorganization
- 6 Exploration and Production
- 8 Supply and Refining
- 9 Financial Statements
- 17 Marketing
- 21 Corporate Relations
- 23 BP Group Progress
- 24 Products and Services



**Front Cover:** BP and Supertest gasoline pumps side by side symbolize the merging of the two companies and emphasize the resultant marketing strength of the new BP Canada Limited.

## Executive Offices

BP Canada Limited,  
BP Oil Limited,  
BP Refinery Canada Limited,  
1245 Sherbrooke Street West,  
Montreal 109, Quebec

Supertest Division, BP Canada Limited,  
245 Pall Mall Street,  
London, Ontario  
BP Oil and Gas Ltd.,  
335 - 8th Avenue S.W.,  
Calgary, Alberta

## Refineries

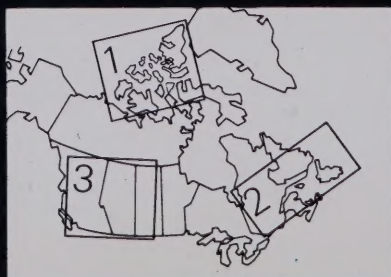
Montreal Refinery,  
Ville d'Anjou, Quebec  
Trafalgar Refinery,  
Oakville, Ontario

## Transfer Agent and Registrar

Canada Trust  
Toronto  
Montreal

## Stock Exchange Listings

Toronto  
Montreal



Fold out cover for maps showing the  
exploration and production activities of  
BP Canada Limited.

# BP Canada Limited: Exploration and Production Areas

## 1. Arctic Islands

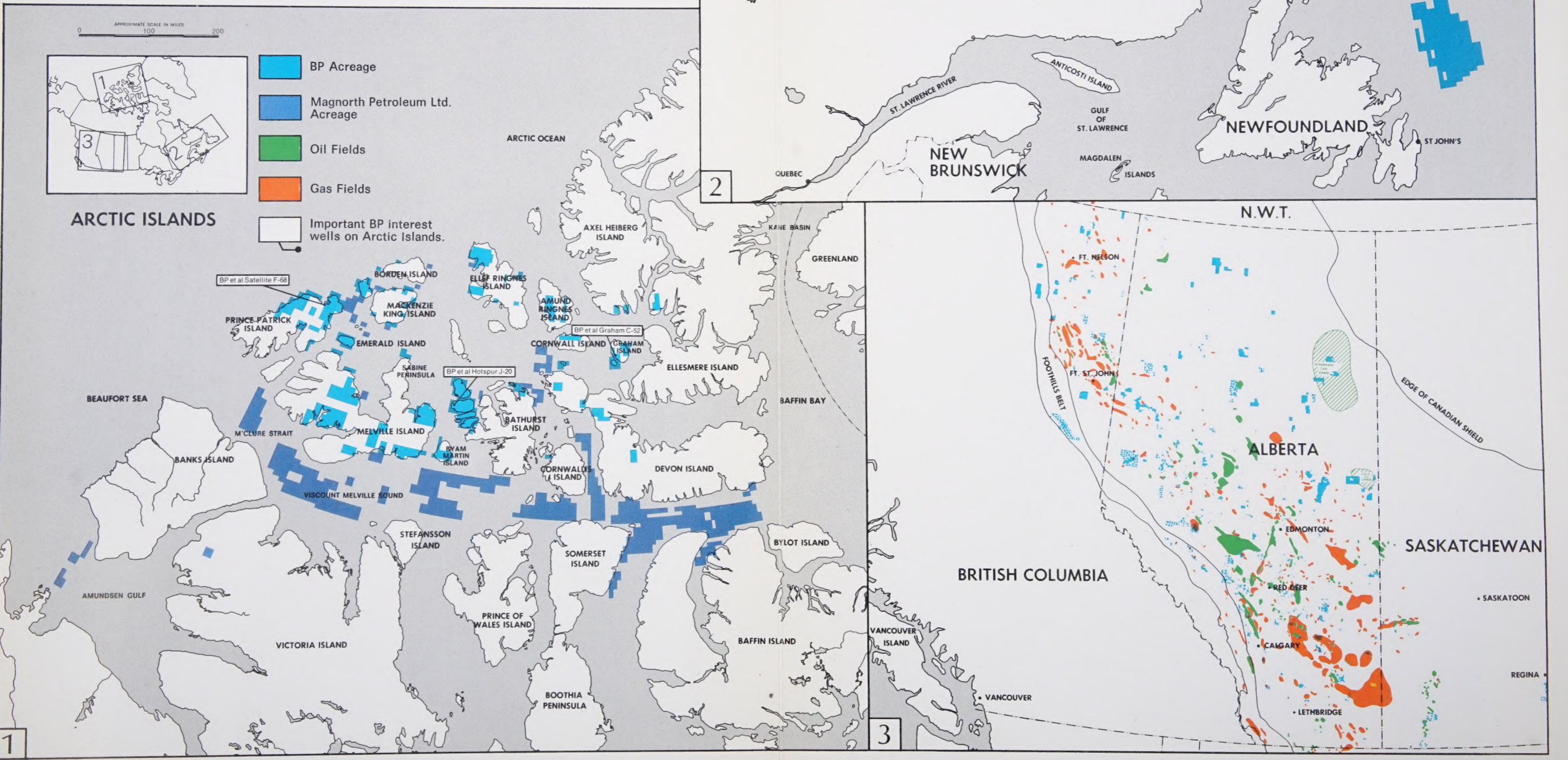
BP Canada is actively exploring its substantial acreage in the Arctic Islands. The map shows the location of the two wells currently being drilled on Prince Patrick and Graham Islands and of the third well (Hotspur J-20), on Vanier Island, which was drilled to 12,584 feet.

## 2. East Coast

A \$25 million exploration programme is planned on the 12.7 million acres of Federal permits held by the Company off the coasts of Newfoundland and Labrador. Seismic work will begin this summer and drilling is expected to start in 1973 or 1974.

## 3. Western Provinces

There was no slackening in the Company's efforts to find fresh reserves in the established western oil regions. BP companies drilled 61 exploratory and 42 development wells in 1971, of which 13 exploratory and 23 development wells were successful.



# Highlights of the Year 1971

with 1970 figures shown on a  
comparable basis

## Financial

	1971	1970	% change
	(Thousands of dollars)		
Revenue — sales and services .....	<b>\$257,666</b>	\$235,019	+ 9.6
Net revenue .....	<b>244,690</b>	223,082	+ 9.7
Total funds derived from operations .....	<b>37,241</b>	29,187	+27.6
Net income for the year .....	<b>15,347</b>	10,857	+41.4
Net income per share .....	<b>88¢</b>	62¢	+41.4
Working capital at end of year .....	<b>18,255</b>	17,756	+ 2.8
Additions to property, plant, and equipment .....	<b>29,729</b>	26,810	+10.9
Long term debt at end of year .....	<b>65,184</b>	74,984	-13.1
Shareholders investment at end of year .....	<b>203,254</b>	187,041	+ 8.7
Total assets at end of year .....	<b>357,125</b>	344,029	+ 3.8

## Operating

	(Barrels per calendar day)		
Refined product sales .....	<b>94,400</b>	96,431	- 2.1
Crude oil processed at refineries .....	<b>99,079</b>	100,000	- 0.9
Net production of crude oil and natural gas liquids .....	<b>22,132</b>	21,326	+ 3.8
	(Thousands of cubic feet per calendar day)		
Net sales of natural gas .....	<b>80,125</b>	77,660	+ 3.2

*Pour copie de ce Rapport Annuel  
en français, écrire à:  
Service des Relations Publiques  
BP Canada Limitée  
1245 ouest, rue Sherbrooke  
Montréal 109, Qué.*



*R.M. Fowler (left), Chairman of the Board and D.F. Mitchell, President, discuss plans for the expansion of the Company's Trafalgar Refinery.*

COL. J. GORDON THOMPSON, C.D. – *Honorary Chairman*

## Board of Directors

R. W. ADAM – New York  
*President, BP North America Inc.*

D. F. MITCHELL – Montreal  
*President, BP Canada Limited*

D. W. K. BARKER – London, England  
*A Managing Director, The British Petroleum Company Limited (retired 31.3.1972)*

J. H. MOORE – London, Ontario  
*Chairman of the Board, John Labatt Ltd. President, Brascan Limited*

A. F. DOWN, O.B.E., M.C. – London, England  
*A Deputy Chairman, The British Petroleum Company Limited*

Hon. M. SAUVE, P.C. – Montreal  
*Vice-President, Consolidated-Bathurst Ltd.*

R. M. FOWLER – Montreal  
*President, Canadian Pulp and Paper Association (retired 31.1.1972)*

D. E. C. STEEL, D.S.O., M.C. – London, England  
*A Managing Director, The British Petroleum Company Limited*

R. W. D. HANBIDGE – Montreal  
*Executive Vice-President, BP Canada Limited*

J. ALLYN TAYLOR – London, Ontario  
*Chairman and President, Canada Trust*

F. A. McKINNON – Calgary  
*President, BP Oil and Gas Ltd.*

JAMES G. THOMPSON – London, Ontario  
*President, Corlon Investments Limited*

## Senior Officers

R. M. FOWLER,  
*Chairman of the Board*

D. F. MITCHELL,  
*President*

J. LANGELIER, Q.C.  
*Vice-President – Legal*

R. W. D. HANBIDGE,  
*Executive Vice-President*

R. W. MITCHELL, M.B.E., Q.C.,  
*Vice-President (London) and Secretary*

L. E. BARCHARD,  
*Vice-President – Supply*

D. C. SMITH,  
*Vice-President – Finance and Treasurer*

J. A. BARCLAY,  
*Vice-President – Refining*

F. A. McKINNON,  
*President, BP Oil and Gas Ltd.*

# Report to the Shareholders

I am pleased to present this Annual Report, the first to be produced for the new BP Canada Limited following the merger, in December, 1971, of BP's petroleum interests in Canada with those of Supertest.

Your Company is now firmly established as a major marketer and refiner of petroleum products in Ontario and Quebec, is well placed as a producer of oil and gas in Western Canada, and has an important stake in the exploration activity rapidly gaining momentum in Canada's Frontier areas.

The consolidated net income of BP Canada Limited in 1971 rose 41% over the comparable figure for 1970 to \$15,347,000. Sales of petroleum products averaged 94,400 barrels per day. Production of crude oil and natural gas liquids averaged 22,132 barrels per day, while sales of natural gas increased to 80.1 million cubic feet per day. Sulphur production rose to 117,605 tons per annum: however, market conditions remained extremely depressed and, as a result, more than 50% of the production was added to stockpile.

Looking to the future, work is now proceeding to add 40,000 barrels per day to the capacity of Trafalgar Refinery at Oakville, Ontario. These new facilities are scheduled to be in operation towards the end of 1974. They will enable Trafalgar Refinery to manufacture all the major petroleum products to be marketed in Ontario under the BP and Supertest brands.

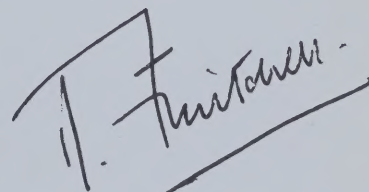
Substantial gains in efficiency are expected to result from the merger of BP's and Supertest's businesses. Improvements are progressively being introduced, but it will undoubtedly be some time before the full benefits of rationalization can be realised.

In Western Canada, the offices of Supertest Investments and Petroleum have been closed. The management of this subsidiary company, which now contains virtually all the wholly-owned exploration and production interests of your Company, has been entrusted to your partially-owned subsidiary, BP Oil and Gas Ltd.

In common with other members of the oil industry, your Company, in 1971, experienced sharply increased costs for both purchased domestic and imported crude oils as well as for materials, services, and salaries and wages. Although product prices, both in Ontario and Quebec, have risen somewhat in response to these increased costs, further increases are inevitable if the industry is to be in a position to meet future anticipated cost escalation, its growing obligations in the field of environmental protection and the urgent necessity of discovering new sources of oil and gas. Of one thing there can be little doubt, the Canadian oil industry can look forward to an assured market for all the oil and gas it can produce.

It is with deep regret that I have to record that Mr. J. L. Stewart, M.B.E., Q.C., a senior partner of Fraser & Beatty, Toronto, died suddenly on December 6, 1971. Mr. Stewart had been closely associated with BP from the start of its operations in Canada both as counsel and more recently as a Director of BP Canadian Holdings Limited. He had been nominated as a member of your Board, but his untimely death prevented his assuming this office. His experience, advice, and judgement will be sadly missed.

Finally, on your behalf and that of the Board, I wish to thank the Company's employees, agents and dealers for all their efforts during a difficult, though successful, year.



D. F. Mitchell  
President

April, 1972.

# Corporate Reorganization

The merger of BP's petroleum interests in Canada with those of Supertest became effective on December 23, 1971.

On that date, BP acquired a controlling interest in Supertest Petroleum Corporation, Limited which in turn acquired all BP's petroleum interests in Canada. Simultaneously, the name of Supertest was changed to BP Canada Limited. The Supertest brand marketing organization has

been designated Supertest Division, BP Canada Limited. For ease of reference, the resultant corporate structure is shown in outline on the facing page.

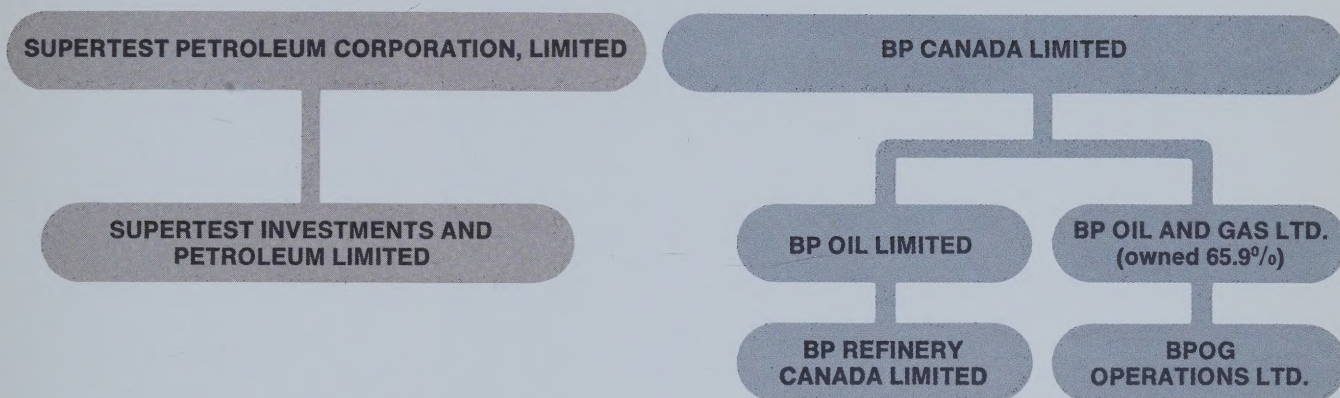
The controlling interest acquired represented 83.7% of the former common shares. In respect of the offer made by BP Canadian Holdings Limited to purchase the balance of the former common shares, 97.2% of such shares were tendered to and purchased by BP Canadian Holdings. Holders of the former common shares who did not tender their shares prior to the expiry of the offer on March 24, 1972 are entitled under the Scheme of Arrangement adopted on November 24, 1971 to one new common share for each two former common shares.

As at March 31, 1972 99.4% of the former ordinary shares had been exchanged for new common shares and class A shares on the basis of five new common shares and one-half class A share for each former ordinary share as provided for in the Scheme of Arrangement. Of the 344,390 class A shares resulting from the arrangement 295,001 shares (85.7%) were tendered to and purchased by BP Canadian Holdings prior to the expiry of the offer on March 24, 1972 and donated to BP Canada without consideration.

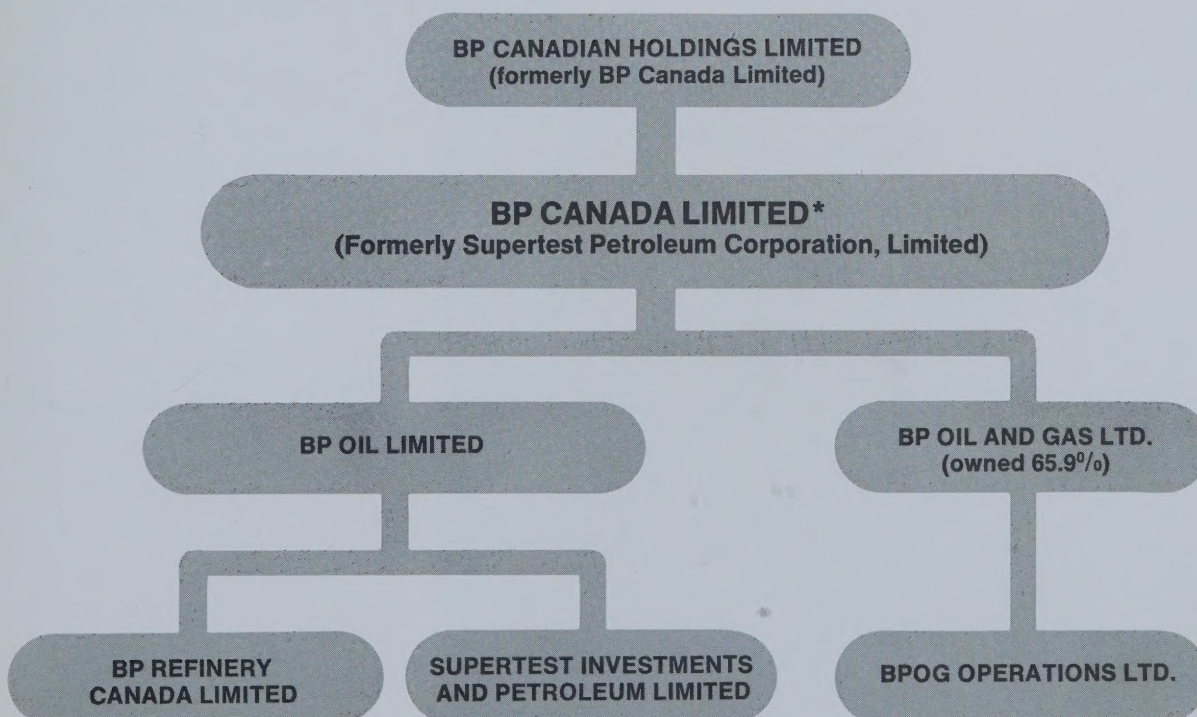


# Corporate Structure

## Before the merger



## After the merger



\*Owned 79.8% by BP Canadian Holdings Limited (formerly BP Canada Limited) and 20.2% by the public.

# Exploration and Production

In 1971 the main exploration efforts of BP Canada Limited were concentrated in the Arctic Islands through the activities of BP Oil and Gas Ltd. and BP Oil Limited. Following the merger with Supertest Petroleum Corporation, Limited, the main properties of BP Oil were transferred to Supertest Investments and Petroleum Limited. These companies hold varying interests in the 8.4 million acres farmed out to Panarctic Oil Ltd. and on which Panarctic has now completed most of the exploration work required to earn its interest. Additionally, they have farmed back from Panarctic on 950,000 acres and have a farmout from the Pacific Petroleum group covering two blocks on Graham Island, totalling 338,000 acres.

Under the terms of the farm back from Panarctic, the two companies and their partners were committed to drill two 12,000-foot tests in 1971. They also have an option to begin drilling a third 12,000-foot test before the end of 1972. The first well, BP et al Panarctic Hotspur J-20 on Vanier Island, was suspended at 12,584 feet because of mechanical difficulties before reaching its main objective — the Lower Paleozoic carbonates. The second well, BP et al Panarctic Satellite F-68 on Prince Patrick Island, was at 11,427 feet in early April 1972.

On Graham Island, BP et al Graham C-52 was started in February, 1972. This 10,000-foot test will earn a 25% interest in one block and an option to purchase a 25% interest in the second block.

During the year, some 2,000 miles of seismic work was completed on the 12.7 million acres of Federal oil and gas permits held by the companies off the coasts of Newfoundland and Labrador. An agreement has recently been announced with Columbia Gas Development of Canada Ltd. under which, in return for contributing \$25 million over the next 8 years for an extensive exploration programme on this acreage, it will earn a 40% interest in the permits.

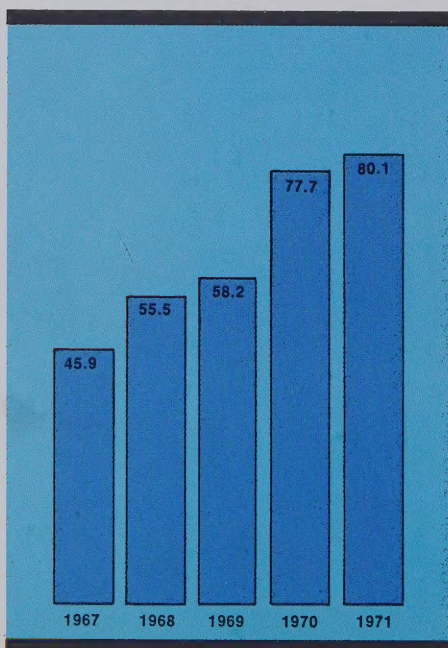
Columbia will have a full call on any gas produced, the BP companies having a similar right on any oil produced. Columbia will finance all development expenditures, recovering BP's share of the cost out of one-third of BP's production revenues.

BP Canada Limited, through Supertest Investments and Petroleum Limited, has a 39% interest in Magnorth Petroleum Limited. Magnorth Petroleum holds 14 million acres, mainly offshore, in the Sverdrup Basin and Lancaster Sound areas of the Arctic Islands. In 1971, 5,700 miles of seismic work was completed by Magnorth to augment the 3,000 miles of data obtained in 1970. A farmout has been concluded with Northern Natural Gas Company, whereby Northern will spend \$9.8 million up to the end of 1977 to explore the Magnorth acreage. This expenditure will earn Northern a 25% interest, with the option to earn, in stages, an additional 25% by spending up to \$26.5 million over a further 4-year period.

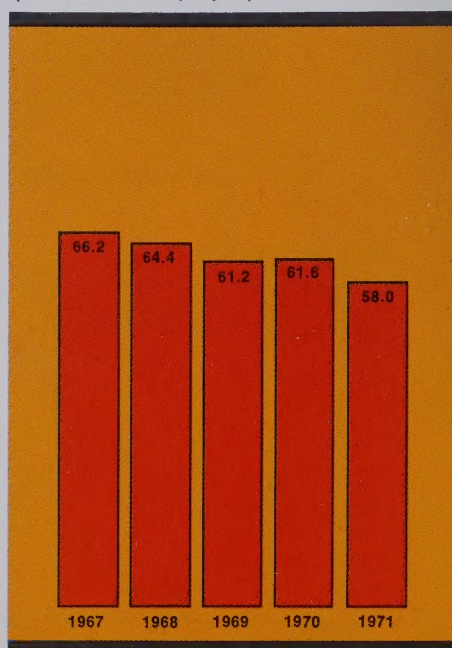
**Net production of crude oil and natural gas liquids**  
(Thousands of barrels per day)



**Net sales of natural gas**  
(Millions of cubic feet per day)



**Net sales of sulphur**  
(Thousands of tons per year)



Supertest Investments and Petroleum Limited holds varying interests in over 500,000 acres offshore in the Mackenzie Delta. It also holds some 50,000 lease acres located in the mineable area of the Athabasca Tar Sands.

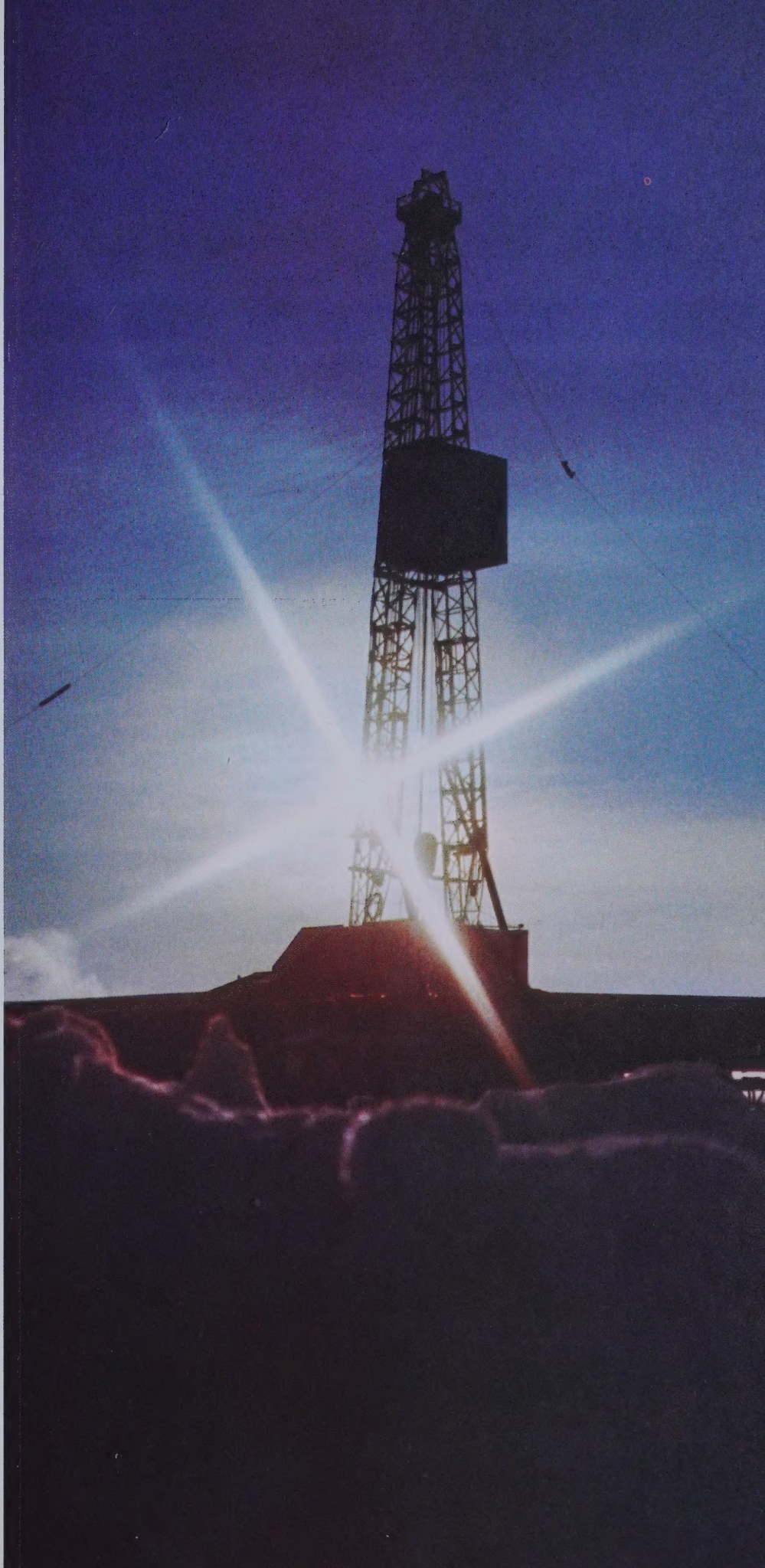
In addition to these major exploration activities, an active programme of land acquisition, seismic work and drilling is being maintained in the established western oil regions.

During the year, BP Oil and Gas Ltd. participated in drilling 39 exploratory and 30 development wells. Nine exploratory wells and 17 development wells were successful. More than half the exploratory wells were drilled under farmout arrangements at no cost to BP Oil and Gas Ltd. Supertest Investments and Petroleum Limited and Supertest Petroleum Inc. drilled 22 exploratory wells and 12 development wells. Four of the exploratory wells and six of the development wells were successful. Ten of the exploratory wells were drilled at no cost to the Company.

Net sales of oil and natural gas liquids by BP Oil and Gas Ltd., at 19,422 barrels per day, were up 4% over 1970. Natural gas sales were almost 3% higher than in 1970, averaging 64.1 million cubic feet per day. Production of sulphur was 116,805 tons, or more than 10% higher than in 1970. Market demand and prices for sulphur remained depressed, however, and no improvement is foreseen for 1972. Sales totalled 58,003 tons (or less than half the Company's production) at an average price of \$7 per ton.

Net oil and condensate sales by Supertest Investments and Petroleum Limited, at 2,710 barrels per day, were virtually unchanged from 1970. Gas sales were 5% higher at 16.0 million cubic feet per day. Sulphur production was little changed at 800 tons, but, as in 1970, the entire production was added to stockpile.

*Silhouetted against the bright northern sun, a rig drills ahead in the Arctic Islands.*



# Supply and Refining

Crude throughput in 1971 at the Company's two refineries totalled 99,079 barrels per day, while 1,929 barrels per day of other feedstocks were also processed.

Crude oil supplied to Montreal Refinery from overseas averaged 63,100 barrels per day, of which 46% came from Nigeria, 39% from the Middle East, and 15% from the Caribbean. In addition, some 900,000 barrels of refined products and 400,000 barrels of intermediate refinery feedstock were imported into Montreal.

Trafalgar Refinery was supplied with 36,200 barrels per day of Alberta and Saskatchewan crude oils. Some 300,000 barrels of mixed butanes were also used as feedstock. A new plant was commissioned early in the year to manufacture chemical-grade propylene. Its production was exported to The Standard Oil Company (Sohio) in the United States, where it is used to manufacture acrylonitrile.

New facilities for the production and loading of kerosine-type jet fuel were also completed.

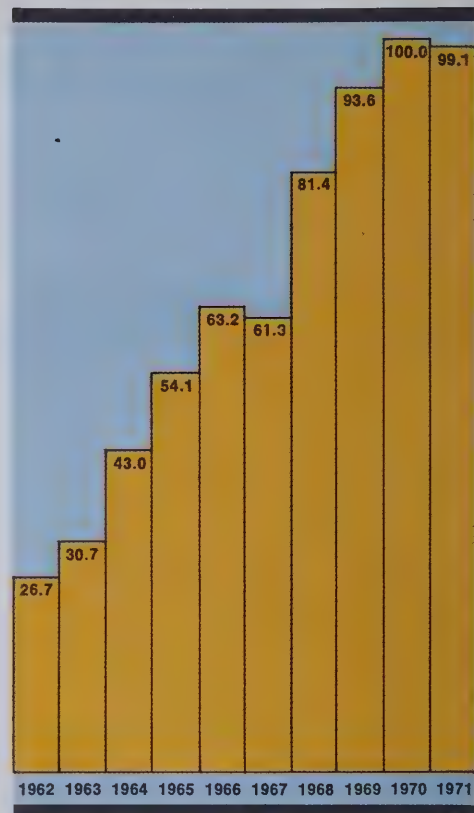
A processing agreement at Trafalgar Refinery covering the year 1972 was negotiated with a major oil company. This will serve to maintain the throughput of this refinery at a high level.

Supertest Division was supplied with some 17,500 barrels per day of refined products under its long term contract with a major refiner.

The installation of facilities for the metering of heavy fuel oils was completed at the Montreal Terminal with a resultant marked improvement in efficiency. Work is continuing to develop a system for the metering of asphalt at this terminal. At the Quebec Terminal modifications were made to allow the automatic monitoring of product loading into road tankers.

During 1971, four new bulk plants were completed and work was put in hand to rehabilitate seventeen existing plants as part of a continuing programme to modernize the Company's distribution facilities.

**Total crude oil processed**  
(Thousands of barrels per calendar day)



*This plant, commissioned in 1971 at Trafalgar Refinery, produces chemical-grade propylene. The propylene is sold in the United States to The Standard Oil Company (Sohio), an associate of The British Petroleum Company Limited, which uses it to manufacture acrylonitrile, an important raw material for the synthetic rubber and textile industries.*

## Consolidated statement of income

for the year ended December 31, 1971:

	1971	1970
	(Thousands of dollars)	
<b>Revenue:</b>		
Sales and services .....	\$257,666	\$235,019
Less federal sales taxes .....	14,523	12,931
	<u>243,143</u>	<u>222,088</u>
Income from investments .....	1,547	994
	<u>244,690</u>	<u>223,082</u>
<b>Expenses:</b>		
Purchases of crude oil, products and merchandise .....	133,647	119,570
Operating and administration .....	67,308	65,274
Depreciation (notes 3 and 5) .....	13,264	12,920
Depletion (notes 3 and 5) .....	6,572	5,752
Interest and discount on long term debt .....	4,651	5,266
	<u>225,442</u>	<u>208,782</u>
Income before income taxes, minority interest and extraordinary items .....	19,248	14,300
Income taxes (note 8) .....	3,600	3,000
	<u>15,648</u>	<u>11,300</u>
Minority interest in income of subsidiary .....	2,651	2,096
Income before extraordinary items .....	<u>12,997</u>	<u>9,204</u>
<b>Extraordinary items:</b>		
Income tax credit (note 8) .....	3,100	1,653
Cost of acquisition of BP petroleum interests .....	(250)	—
Provision for costs of integration (after income taxes of \$500,000) .....	(500)	—
	<u>2,350</u>	<u>1,653</u>
Net income for the year (note 3) .....	<u>\$ 15,347</u>	<u>\$ 10,857</u>
<b>Income per common and Class A share (note 7):</b>		
Before extraordinary items .....	\$ .75	\$ .53
Extraordinary items .....	.13	.09
Net income for the year .....	<u>\$ .88</u>	<u>\$ .62</u>

See accompanying notes

# BP Canada Limited and subsidiaries

(formerly Supertest Petroleum Corporation, Limited)

(Incorporated under the laws of Ontario)

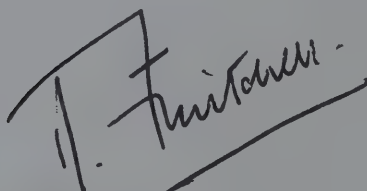
## Consolidated balance sheet

December 31, 1971

### Assets

	1971	1970
	(Thousands of dollars)	(Thousands of dollars)
<b>Current:</b>		
Cash and short term investments, at cost which approximates market .....	\$ 5,227	\$ 7,453
Accounts receivable .....	47,465	43,230
Inventory, valued at the lower of cost or market .....	23,490	20,891
Prepaid expenses and deposits .....	2,092	2,101
Total current assets .....	<u>78,274</u>	<u>73,675</u>
<b>Investments and advances:</b>		
Investments in other companies (notes 3 and 4) .....	4,636	4,623
Mortgages, loans and long term deposits .....	7,849	6,997
Lease payments, at amortized cost .....	1,178	1,243
Total investments and advances .....	<u>13,663</u>	<u>12,863</u>
<b>Property, plant and equipment, at cost less accumulated depreciation and depletion (notes 3 and 5) .....</b>	<b>265,188</b>	<b>257,491</b>
	<u><u>\$357,125</u></u>	<u><u>\$344,029</u></u>

On behalf of the Board:



Director



Director

See accompanying notes



## Liabilities and Shareholders' Equity

	1971	1970
	(Thousands of dollars)	
<b>Current:</b>		
Bank loan .....	\$ 7,200	\$ 3,500
Notes payable .....	7,000	4,000
Accounts payable and accrued charges .....	36,754	31,857
Due to affiliates .....	225	8,365
Dividends payable .....	222	223
Current maturities of long term debt .....	6,556	5,790
Deferred production income .....	2,062	2,184
Total current liabilities .....	60,019	55,919
Gas supply contract advances .....	1,546	1,646
Long term debt (note 6) .....	65,184	74,984
Minority interest in subsidiary .....	27,122	24,439
<b>Shareholders' equity:</b>		
Capital stock (note 7) .....	158,268	156,189
Retained earnings .....	44,986	30,852
	203,254	187,041
	<u>\$357,125</u>	<u>\$344,029</u>

## Auditors' report

*To the Shareholders of BP Canada Limited:*

We have examined the consolidated balance sheet of BP Canada Limited (formerly Supertest Petroleum Corporation, Limited) and its subsidiaries as at December 31, 1971 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the changes in accounting described in note 3, on a basis consistent with that of the preceding year.

The 1970 comparative figures are based in part on financial statements examined by other Chartered Accountants.

*Clarkson Gordon & Co.*

Montreal, Canada,  
March 6, 1972.

Chartered Accountants

## Consolidated statement of source and application of funds

For the year ended December 31, 1971

	1971	1970
	(Thousands of dollars)	
<b>Funds derived from:</b>		
Net income for the year	\$ 15,347	\$ 10,857
Add (deduct) items not resulting in a flow of funds in the current year —		
Depreciation and depletion (notes 3 and 5)	19,836	18,672
Income attributable to minority interest	2,651	2,096
Profit on redemption of long term debt	(234)	(1,220)
Other	(359)	(1,218)
Total funds derived from operations	37,241	29,187
Shares sold by subsidiary to minority interest	36	8,668
Long term borrowing	22	800
Proceeds on sale of property, plant and equipment	2,803	2,523
Increase in capital contributed by parent company	2,143	3,463
Increase in gas supply contract advances	(100)	736
Total funds derived	42,145	45,377
<b>Funds applied to:</b>		
Additions to property, plant and equipment	29,729	26,810
Repayments of long term debt	9,588	13,447
Net increase in investments and advances	1,053	688
Redemption of preference shares	63	10
Premiums paid on acquisition of going concerns	730	375
Dividends	483	486
Total funds applied	41,646	41,816
Net increase in working capital	499	3,561
Working capital, beginning of the year	17,756	14,195
Working capital, end of the year	\$ 18,255	\$ 17,756

See accompanying notes

## Consolidated statement of retained earnings

For the year ended December 31, 1971

	1971	1970
	(Thousands of dollars)	
<b>Balance, beginning of year</b>		
As previously reported:	\$ 29,226	\$ 27,447
Add (deduct) —		
Transfer from reserve for contingencies	265	265
Deficit of acquired companies	(2,606)	(9,798)
Accounting changes (note 3)	3,967	2,942
As restated	30,852	20,856
Net income for the year	15,347	10,857
Premiums paid on acquisition of going concerns (note 3)	(730)	(375)
	45,469	31,338
<b>Dividends:</b>		
Common shares and ordinary shares prior to arrangement (note 7)	406	406
Preference shares	77	80
	(483)	(486)
<b>Balance, end of year</b>	\$ 44,986	\$ 30,852

See accompanying notes

## Notes to consolidated financial statements — December 31, 1971

### 1. Accounting policies

The consolidated financial statements include the accounts of the company and all its subsidiaries.

On December 23, 1971 the company acquired for shares from BP Canadian Holdings Limited the petroleum marketing, refining and exploration interests of the BP Group in Canada. As a result of this and related transactions the company became a subsidiary of BP Canadian Holdings Limited; consequently the assets, liabilities and retained earnings of the companies acquired have been consolidated at their carrying values in their respective financial statements, and the results of their operations have been retroactively included with those of the company and its subsidiaries for the periods presented.

The accounting practices of the company and its subsidiaries have been changed to conform to those of the BP Group in Canada as described in note 3 below.

### 2. Acquisition of BP petroleum interests in Canada

The BP petroleum interests in Canada, consisting of all the outstanding shares of BP Oil Limited (principally engaged in the refining and marketing of petroleum products) and 65.9% of the outstanding shares of BP Oil and Gas Ltd. (engaged in the exploration for and production of oil and natural gas) were acquired on December 23, 1971 in exchange for the issuance of 13,150,600 of the company's new common shares (representing 76.4% of those outstanding at the conclusion of the transaction) created in the reorganization of its capital structure described in note 7 below. The following were the net assets of the companies acquired in the transaction at their book values at December 31, 1971:

	BP Oil Limited	BP Oil and Gas Ltd.	Total
	(Thousands of dollars)		
Total assets	\$187,611	\$109,933	\$297,544
Total liabilities	81,076	30,466	111,542
	106,535	79,467	186,002
Minority interest	—	27,122	27,122
Net assets	\$106,535	\$ 52,345	\$158,880

The fair value of the 13,150,600 common shares given as consideration was determined by the directors to be \$151,642,000 at the time of their issue, which was the aggregate paid in value of the shares of the acquired companies, the contributed surplus of \$89,262,000 arising on the forgiveness of debt by BP Canadian Holdings Limited to BP Oil Limited having been credited on consolidation to paid in capital.

The consolidated statement of income of the company and its subsidiaries for the years ended December 31, 1971 and 1970 had the acquisition described above not taken place, but after giving effect to the changes in accounting described in note 3, would have been:

	1971	1970
	(Thousands of dollars)	
<b>Revenue:</b>		
Sales and services	\$62,520	\$59,180
Less federal sales taxes	4,325	3,923
	58,195	55,257
Income from investments	409	361
	58,604	55,618
<b>Expenses:</b>		
Purchases of crude oil, products and merchandise	\$37,182	\$34,440
Operating and administration	13,590	13,147
Depreciation (note 5)	2,651	2,548
Depletion (note 5)	791	639
Interest on long term debt	160	206
	54,374	50,980
Income for the year before income taxes	4,230	4,638
Income taxes (note 8)	1,010	1,272
Net income for the year	\$ 3,220	\$ 3,366

### 3. Changes in accounting

The following accounting practices of the company and its subsidiaries before the acquisition of the BP companies were changed to conform them to those of the BP Group in Canada:

- the adoption, effective January 1, 1970, of the full-cost method of accounting whereby all costs related to the exploration for and the development of oil and gas reserves, whether related to productive or non-productive properties, are capitalized. Proceeds received from the disposal of properties are credited against these costs, and the net costs are amortized by the composite unit of production method based on total estimated proven reserves.
- the retroactive adoption of the straight line method of calculating depreciation.

In addition, in 1971 the companies adopted the practice of charging the excess of cost over the fair value of assets acquired on the purchase of going concerns to retained earnings. The companies also adopted the practice of charging commission on issue of preference shares to retained earnings and changed from the cost to the equity method of accounting for their investments in effectively controlled companies. The financial statements have been restated to give retroactive effect to these changes.

Notes to consolidated financial statements — December 31, 1971 (continued)

As a result of these changes, the consolidated retained earnings at January 1, 1970 were increased by \$2,942,000 and the net income for the years ended December 31, 1970 and 1971 was increased (decreased) as follows:

	1971		1970		Per share (note 7)	
	(Thousands of dollars)					
Change to the full-cost method (a) above):						
Capitalization of costs previously charged to income	\$1,853	\$1,540	\$ .10	\$ .09		
Increase in depletion	(392)	(239)	(.02)	(.01)		
Change to the straight line method of depreciation (b) above):						
Increase in depreciation	(336)	(186)	(.02)	(.01)		
Increase (decrease) in profit on disposals	(66)	46	—	—		
Total effect of changes to conform accounting	1,059	1,161	.06	.07		
Adoption of the practice of charging premium paid on acquisition of going concerns to retained earnings	730	375	.04	.02		
Adoption of the equity method of accounting for the investment in effectively controlled companies	(127)	(136)	(.01)	(.01)		
Total increase in net income for the year	\$1,662	\$1,400	\$ .09	\$ .08		

4. Investments in other companies

Investments in other companies at December 31 consisted of:

	1971	1970
	(Thousands of dollars)	
Shares of effectively controlled companies, at equity	\$ 139	\$ 177
Investments in other companies, at cost:		
Not quoted	3,607	3,556
Quoted (market value 1971 — \$2,729,000; 1970 — \$2,574,000)	890	890
	\$4,636	\$4,623

5. Property, plant and equipment

	1971		1970	
	(Thousands of dollars)			
	Investment at cost	Accumulated depreciation and depletion	Net investment	Net investment
Production	\$191,292	\$ 69,724*	\$121,568	\$114,981
Refining	101,900	46,610	55,290	59,142
Marketing	145,200	56,870	88,330	83,368
	\$438,392	\$173,204	\$265,188	\$257,491

\*includes depletion of \$52,414

Depreciation on marketing, refining and production assets is provided on a straight line basis over the estimated useful lives of the assets and depletion (since January 1, 1970) by the full-cost method based on estimated proven oil and gas reserves.

6. Long term debt

Details of the companies' long term debt are as follows:

	1971	1970
	(Thousands of dollars)	
BP Canada Limited — Mortgage loans payable	\$ 274	\$ 318
BP Oil Limited — Mortgage loans payable	261	305
Notes due 1972 to 1975 (average rate 5.8%)	10,000	10,000
BP Refinery Canada Limited (a subsidiary of BP Oil Limited) — 5½ % first mortgage sinking fund bonds Series A, maturing March 15, 1979	8,711	9,500
5¾ % sinking fund debentures Series A, maturing October 1, 1986	27,708	28,394
Supertest Investments and Petroleum Limited (a subsidiary of BP Oil Limited) — Bank loans secured by certain oil and gas properties, payable over a period of five years	\$ 1,929	\$ 2,370
BP Oil and Gas Ltd. — Bank loans secured by certain oil and gas properties, payable over a period of five years	3,381	5,552
4¾ % notes due September 15, 1971	—	2,347
Notes payable monthly to July 15, 1980 out of proceeds of production from certain properties:		
5¾ % Series A notes	—	988
6¼ % Series B notes	19,476	21,000
	71,740	80,774
Less current maturities included in current liabilities	6,556	5,790
	\$65,184	\$74,984

Long term repayments and sinking fund requirements during the four years subsequent to December 31, 1972 are approximately as follows:

1973 — \$8,211,000;	1974 — \$9,019,000;
1975 — \$7,278,000;	1976 — \$5,497,000.

7. Capital stock

Under an arrangement approved by the shareholders on November 24, 1971 the company's articles were amended effective December 23, 1971 changing the company's authorized share capital to the following:

27,219 preference shares of \$100 par value each, of which 15,219 are designated 5% cumulative redeemable sinking fund preference shares of \$100 par value each, redeemable for \$103 or at par for sinking fund purposes;

30,000,000 common shares without par value;

344,390 Class A fully participating non-voting shares without par value.

# Notes to consolidated financial statements — December 31, 1971 (continued)

Under the arrangement and the transaction described in note 2 the following shares became outstanding or were issued:

New common shares		Class A shares	Outstanding or issued
Number	Percentage of total		
3,443,900	20.0%	344,390	in respect of the previously issued 688,780 ordinary shares
625,000	3.6		in respect of the previously issued 1,250,000 common shares
13,150,600	76.4		to BP Canadian Holdings Limited as consideration for the shares acquired as referred to in note 2
<u>17,219,500</u>	<u>100.0%</u>	<u>344,390</u>	

As part of the transaction referred to in note 2, BP Canadian Holdings Limited offered to purchase for \$20 each all except 41,590 of the outstanding Class A shares and agreed to donate all shares so acquired to the company. 27,432½ Class A shares had been acquired by December 31, 1971; a total of 293,817 shares had been acquired to March 1, 1972 and have been donated. The per share calculation in these financial statements give effect to the donation of Class A shares acquired by BP Canadian Holdings Limited to March 1, 1972. The company is proposing that all Class A shares donated will be cancelled, and that remaining Class A shares will be converted to common shares on a share for share basis.

The issued share capital, at December 31 after giving retroactive effect in 1970 to the arrangement described above, is as follows:

	1971	1970
	(Thousands of dollars)	
15,219 5% cumulative redeemable sinking fund preference shares (1970 — 15,849 shares)	\$ 1,522	\$ 1,585
344,390 Class A fully participating non-voting shares	156,746	154,604
17,219,500 common shares	<u>158,268</u>	<u>156,189</u>

Under the terms of an agreement made concurrently with the agreement referred to in note 2 BP Canadian Holdings Limited purchased 1,046,730 of the previously outstanding 1,250,000 common shares of the company for cash and offered to purchase the remaining 203,270 common shares; 1,151,203 shares had been acquired by December 31, 1971, and at March 1, 1972 the number acquired totalled 1,243,167, bringing the interest of BP Canadian Holdings Limited to approximately 80% of the new common shares of the company.

The company redeemed for cash 630 preference shares during the year.

## 8. Income taxes

Under Canadian income tax law, drilling, exploration and lease acquisition costs may be deducted from income and any amounts not deducted may be carried forward to subsequent years. Although the utilization of the maximum available deductions may eliminate or reduce current income tax liability, it may also result in the payment of higher taxes in the future when recorded charges against income exceed those available for tax purposes. Directly influencing the timing and amount of this future liability, however, are additional deductions available from continuing exploration and development investment which will result in further deferment of tax liability. For these reasons

the companies, in common with many other companies in the oil and gas industry, do not consider it appropriate to provide for income taxes deferred as a result of claiming deductions for tax purposes greater than the related charges in the accounts. This practice differs from the tax allocation basis of accounting recommended by the Canadian Institute of Chartered Accountants which requires that income taxes be provided for on the basis of income reported in the accounts. If the companies had provided for deferred taxes with respect to these timing differences, the effect would be as follows:

	Increase in deferred income taxes	Decrease in net income (net of minority interest)	Per share (note 7)
	(Thousands of dollars)		
BP Canada Limited, excluding BP Oil Limited and BP Oil and Gas Ltd.:			
1971	\$1,356	\$1,356	\$ .08
1970	707	707	.04
BP Canada Limited including BP Oil Limited and BP Oil and Gas Ltd.:			
1971	\$5,335	\$4,350	\$ .25
1970	2,810	2,090	.12

The accumulated deferred income tax credit for current and prior years would have been approximately \$12.2 million at December 31, 1971 (\$6.9 million at December 31, 1970).

In addition, on a cumulative basis the capital cost allowances claimed to eliminate taxable income have been significantly less than the related depreciation charged in the accounts. This difference has been available as a deduction in the determination of taxable income of subsequent years; the resulting tax benefits have been reflected in the accounts as extraordinary items when realized (\$3,100,000 in 1971 and \$1,653,000 in 1970). The aggregate unrecorded potential reduction in future income taxes was estimated to be approximately \$11 million at December 31, 1971 (\$14 million at December 31, 1970).

## 9. Pension plan

The companies' pension plan provides retirement benefits for substantially all employees. A recent actuarial valuation indicated that all liabilities of the plan were fully funded by assets held by the trustees.

## 10. Commitments

At December 31, 1971 commitments for capital expenditure amounted to approximately \$5.8 million. Total rentals under leases expiring more than three years after the balance sheet date amounted to approximately \$19.5 million of which \$2.2 million is payable in 1972.

## 11. Remuneration of directors and senior officers

The aggregate direct remuneration of the company's directors and senior officers was \$633,000 for the year, which includes \$160,000 in respect of directors and senior officers of Supertest Petroleum Corporation, Limited prior to December 23, 1971 who did not continue in those capacities after that date.

## 12. Change in name

Pursuant to the purchase agreement described in note 2, amendment of the company's articles effective December 23, 1971 changed the company's name from Supertest Petroleum Corporation, Limited to BP Canada Limited.

## Five year financial summary\*

(Dollars in thousands except per share amounts)

	1971	1970	1969	1968	1967
<b>Balance sheet</b>					
Current assets	\$ 78,274	\$ 73,675	\$ 74,252	\$ 65,719	\$ 63,329
Current liabilities	60,019	55,919	60,057	41,046	44,233
Working capital	18,255	17,756	14,195	24,673	19,096
Investments and advances	13,663	12,863	12,038	11,912	12,401
Property, plant and equipment — net	265,188	257,491	253,057	238,799	241,886
	297,106	288,110	279,290	275,384	273,383
Deduct: Minority interest in subsidiary	27,122	24,439	11,631	10,549	9,404
Capital employed	269,984	263,671	267,659	264,835	263,979
Deduct: Long term debt	65,184	74,984	88,037	88,848	94,428
Other non-current liabilities	1,546	1,646	909	—	—
Shareholders' equity	\$203,254	\$187,041	\$178,713	\$175,987	\$169,551
Per common share†	\$11.68	\$10.74	\$10.26	\$10.10	\$ 9.72
<b>Income</b>					
Revenue	\$244,690	\$223,082	\$208,152	\$201,688	\$189,615
Expenses	225,442	208,782	201,228	191,634	186,636
Income before income taxes, minority interest and extraordinary items	19,248	14,300	6,924	10,054	2,979
Deduct: Income taxes	3,600	3,000	1,233	3,786	1,498
Minority interest	2,651	2,096	1,082	1,145	971
Income before extraordinary items	12,997	9,204	4,609	5,123	510
Extraordinary items:					
Income tax credit	3,100	1,653	210	2,250	—
Other debits	(750)	—	—	—	—
Net income for the year	\$ 15,347	\$ 10,857	\$ 4,819	\$ 7,373	\$ 510
<b>Per common share†</b>					
Income before extraordinary items	75¢	53¢	26¢	29¢	02¢
Extraordinary items	13¢	09¢	01¢	13¢	—
Net income for the year	88¢	62¢	27¢	42¢	02¢
<b>Total funds derived from operations</b>	<b>\$ 37,241</b>	<b>\$ 29,187</b>	<b>\$ 29,584</b>	<b>\$ 29,774</b>	<b>\$ 23,155</b>

\*On the basis described in notes 1, 3 and 7 to the consolidated financial statements.

†Based on 17,270,073 Common and Class A Shares

## Five year operating summary

(Barrels per calendar day except natural gas)

Petroleum product sales	94,400	96,431	91,099	81,150	76,312
Crude oil processed at refineries	99,079	100,000	93,638	81,353	61,269
Net production of crude oil and natural gas					
liquids	22,132	21,326	18,871	18,415	18,326
Net sales of natural gas (Thousands of cubic feet per day)	80,125	77,660	58,175	55,514	45,912

# Marketing

Total sales of refined products were 94,400 barrels per day.

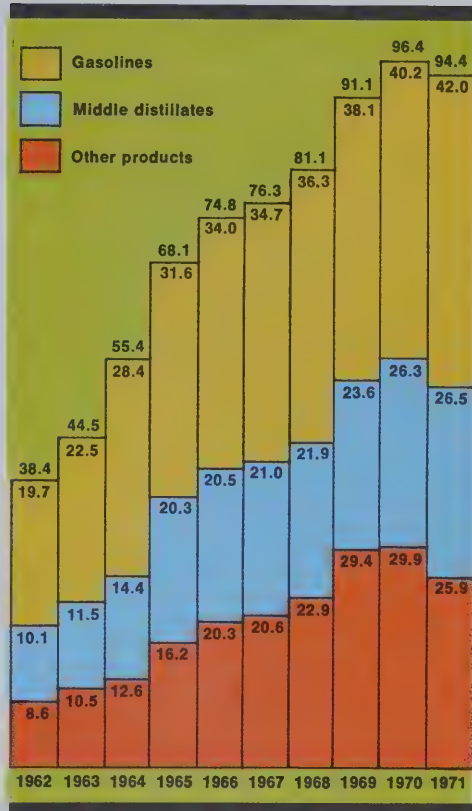
Sales by BP Oil Limited, at 76,937 barrels per day, were 2.9% lower than in 1970, primarily reflecting a policy of eliminating certain low-return heavy fuel oil business. Sales of gasoline at service stations were 10.2% higher than in 1970, while total gasoline sales were 5.4% and middle distillate sales 1.1% higher respectively. Sales of heavy fuel oil were 21.6% lower.

Supertest Division's sales, at 17,463 barrels per day, were 1.5% higher than in 1970. Sales of gasoline increased by 2.3%, but middle distillate sales were 1% lower.

During the year BP Oil Limited built a variety of new service stations in Quebec and Ontario, continuing the policy of designing each station to meet the specific requirements of the market to be served. Based on the successful experience with self-service pump islands in 1970, two additional self-service centres were opened in 1971 and, at year-end, several similar centres were in various stages of construction. Three tunnel car washes with gasoline dispensing equipment were completed during the year, while in-bay mechanical car wash equipment was installed at 13 stations. Seven "neighbourhood" service stations were also opened in developing residential markets.

*BP's introduction of self-service pumps has been highly successful. Two major self-service centres were opened in 1971.*

**Net sales of BP products**  
(Thousands of barrels per calendar day)





*BP fuels cars and drivers. Below, motorists enjoy a relaxing meal at the Company's new restaurant at Bernières, near Quebec City. Above, another new restaurant and service station nears completion.*





*BP is installing several types of car wash equipment as part of its service station development programme. At left, is a large automatic tunnel unit, one of the five car washes installed by Supertest Division in 1971. Below, a smaller, "roll-over" unit added to a service bay.*

A new concept in gasoline marketing, the BP Mini-Mart, is being tested at Candiac, a Montreal suburb. This centre combines self-service gasoline pumps with a completely automatic tunnel car wash and a convenience-type grocery store.

Seven new outlets were added to the Supertest Division retail network, including five car wash facilities. Two outlets were completely rebuilt and many others modernized.

In mid-1971 BP Oil Limited purchased Graham Petroleums Limited, Preston, Ontario, which operates two car washes and five gas bars, and is also engaged in the farm and domestic heating sectors. The domestic fuel oil network was further extended by the acquisition of six fuel oil distributors.

The Company expanded its marketing of jet fuels to include Toronto Airport, thus complementing its long standing arrangements at Montreal Airport. With the introduction of two new grades of asphalt, domestic asphalt sales increased by 18% over the preceding year.

Arrangements were made with National Communications and Data Corporation Limited to provide tighter control over lost and stolen credit cards. Dealers can now



quickly check the status of any credit card through a central computer system. BP and Supertest credit cards can be used interchangeably at BP and Supertest stations. In addition, Chargex cards are honoured at all the Company's locations.



A new concept in gasoline marketing launched by BP — the Mini-Mart — features an automatic car wash, self-service gasoline pumps, and a convenience-type grocery store. Pictured is the first Mini-Mart, opened at Candiac, near Montreal, with cars flowing smoothly through the wash unit.



This modern ranch-type station serves a busy suburb of Montreal.



BP products are sold through agents to over 90,000 customers outside metropolitan areas.

# Corporate Relations

## The Environment

The Company continued its extensive pollution control programme throughout 1971. At Montreal Refinery a further \$500,000 was spent to improve the quality of effluent water.

At both Montreal and Trafalgar Refineries improved procedures to control atmospheric pollution were developed.

A vapour-loss control programme has been introduced, which will be implemented over the next few years. This programme is designed to minimize the loss of hydrocarbons to the atmosphere at all stages in the distribution of gasoline.

By the increased use of more expensive, lower sulphur, crude oils it has been possible to reduce the sulphur content of the Company's fuel oils to below the levels specified by governmental standards. Continuing support has been given to the development of better burner designs for domestic heating equipment, while improved methods have been introduced to service existing equipment.

The Company is a founder member of the Petroleum Association for the Protection of the Canadian Environment (PACE). PACE has initiated many projects — in which the Company has fully participated — concerned with the control and prevention of pollution. Close contact has been maintained with the Federal and Provincial governments, industrial associations, and other agencies.

The Company has continued its leading role in developing procedures to minimize the effects of oil pollution from tankers. Recognizing that, despite the most stringent precautions, accidents at sea can happen, it is a participant in the voluntary international fund CRISTAL, which became effective April, 1971. This fund, together with the previously-introduced shipowners' voluntary fund TOVALOP, provides compensation of up to \$30 million per incident for damage arising from marine oil spills. All ocean-going vessels carrying the Company's crude oil and intermediate and heavy fuel oils are covered by these two funds.

*As part of its environmental conservation programme, BP is equipping vehicles with oil-spill clean-up material and equipment. On call 24 hours a day, they will provide a swift means of dealing with accidental spills in the Company's marketing area.*



## The Employees

At year-end, employees of BP Canada Limited totalled approximately 2,200, with salaries and benefits for the year exceeding \$24 million. As part of the programme of improving the Company's benefit plans, the employee contribution to the Company Pension Plan was reduced by 30%, while maintaining the same level of benefits. In addition, arrangements were made for employees to make additional voluntary contributions to the Pension Plan. Improvements were also made to the Medical Insurance Plan and an Occupational Accident Benefit Plan was introduced.

Both refineries and the Carlaw Blending Plant completed the year without a lost-time injury, with Trafalgar Refinery achieving this safety standard for the third successive year.

## The Public

Six new films were added to the Company's film library, bringing the total to 114, of which 68 are available in French. Television use of the library increased substantially, with films being used many times by both CBC and CTV networks, individual stations, and cable systems. BP films were also seen by an audience of 400,000 in ten Ontario commercial theatres. School and other group showings accounted for more than 1 million further viewers.

Support was provided for the improvement of road safety and junior-level driver education through financial assistance to the Ontario and Quebec Safety Leagues. The Company continued to sponsor the Ontario Safety League's publication "Bits about Wheels" and underwrote the production costs of a colour television commercial, in both English and French, aimed at reducing car thefts.

A second Skid Control and Advanced Driver Training School will be opened in 1972. Located adjacent to Montreal Refinery, it will be modelled on the first school, opened in 1966 at Oakville, Ontario.

The Company's charitable donations programme provided help to some 200 health and welfare, educational, cultural and civic projects.

*A valuable new aid to the Company's staff development programme, this videotape recorder is used in the training of technical and sales personnel.*



# BP Group Progress

BP Canada Limited is a member of a world-wide group of companies headed by The British Petroleum Company Limited. The BP Group is engaged in all sectors of the petroleum industry and is one of the world's largest industrial organisations, comprising several hundred companies operating in some 80 countries.

The BP Group's fortunes were founded over 60 years ago with the discovery of oil in commercial quantities in Iran. Since then it has established further large-scale oil and natural gas reserves in Iraq, Kuwait, Abu Dhabi, Nigeria, Libya, Alaska, and the North Sea, and is currently exploring in more than 20 countries.

In 1971, the BP Group produced over 4 million barrels per day of crude oil from its leases and concessions. Sales of petroleum products were some 2 million barrels per day. In addition, approximately 1.5 million tons of chemicals and over 100 billion cubic feet of gas were sold.

Outside the U.S.A., BP processed in excess of 2 million barrels per day in 14 wholly-owned and 26 partly-owned refineries. Within the U.S.A. four refineries are operated by The Standard Oil Company (Sohio), in which BP has a 25% interest.

At the end of 1971, the BP tanker fleet comprised 130 owned vessels, totalling 5.5 million deadweight tons. A further 13 million deadweight tons were operated on long-term charter.

Since 1945 BP has invested heavily in petroleum chemicals. This sector of the Group's business consists primarily of manufacturing organic chemicals, plastics, and synthetic rubbers, which are sold in bulk to customers in virtually the entire range of manufacturing industry. In 1971, BP won its third Queen's Award to Industry for its process for the manufacture of chloroprene synthetic rubber.

BP operates major research centres in the U.K., France and Germany, where, among other things, processes for the manufacture of protein from hydrocarbon feedstocks have been developed. One commercial plant is now in operation in Scotland and a second plant will shortly be commissioned in France, producing Toprina, the trade name for the new protein product.

# Products and Services

— are provided for the general public, industry, transportation, government agencies and agricultural markets.

BP and Supertest retail outlets are equipped to service customers with a full range of gasolines, lubricants, brand-name tires, batteries, automotive accessories, specialties, and replacement parts. Mechanical repair services are available at most stations.

## BP Branded Products

### Automotive

#### Fuels

Super Red Gasoline  
Super White Gasoline  
Super Blue Gasoline  
Regular Green Gasoline  
Diesel Fuels

#### Lubricants

SUPER VISCO-STATIC — Motor Oils  
ENERGOL HD — Motor Oil  
ENERGOL IC-D — Motor Oil  
ENERGOL S-3 — Motor Oil  
VANELLUS — Commercial Fleet Oil  
AUTOGOL — Motor Oil  
TOU — Tractor Oil Universal  
ENERGOL — Gear Oils  
TYPE 23S — Snowmobile Oil  
ENERGREASES  
Automatic Transmission Fluids  
2-Stroke Oil

#### Specialties

VISION — Windshield Washer Antifreeze  
ANTIGEL — Antifreeze  
VISCO — Oil Additive  
Upper Cylinder Lubricant  
Gas Line Antifreeze  
Undercoat  
Super Heavy Duty Brake Fluid

### Aviation

Gasolines  
Jet Fuels  
Lubricants

### Marine

Bunker Fuels  
Lubricants

### Fuel Oils

Domestic Heating Oils  
Heavy Fuel Oils

### Asphalt

Bitumens for road paving

### Gases

Propane  
Butane  
Propylene

### Miscellaneous

CAMP-SOL — Naphtha Fuel  
GENSOL — Cleaning Solvent  
B-B-Q Lighter Fuel  
PROPCORN — Feed Grain Preservative  
Industrial Lubricants  
Chemical Plant Feedstock  
Mineral Spirits/Solvents  
Emulsifiable Oil Dispersants

## Supertest Branded Products

### Automotive

#### Fuels

Supertest Super Premium Gasoline  
Supertest Regular Gasoline  
Diesel Fuels

#### Lubricants

Long Life Motor Oil  
High Performance Motor Oil  
Multi-grade Motor Oil  
Super Premium Motor Oil  
2-Cycle Outboard Engine Oil  
Snowmobile Super Engine Oil  
Gear Oils  
Greases  
Automatic Transmission Fluid

#### Specialties

Combustion Chamber Conditioner  
Anti-freeze

### Fuel Oils

SUPERHEAT — Domestic Heating Oil  
Tobacco Curing Oil

### Miscellaneous

Hydraulic Oils  
White Naphtha  
Deodorised Cleaning Solvent  
Barbecue Lighter Fluid  
Industrial Lubricants



